

# **REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON INGWE MUNICIPALITY**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I have audited the financial statements of the Ingwe Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ingwe Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

**Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

**Restatement of corresponding figures**

8. As disclosed in note 35 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the municipality at, and for the year ended, 30 June 2012.

**Material impairment**

9. As disclosed in note 4 to the financial statements, the municipality impaired its trade debts by R5,74 million as a result of the annual review of outstanding debts.

**Unauthorised expenditure**

10. As disclosed in note 28 to the financial statements, unauthorised expenditure amounting to R4,10 million was incurred as the municipality had exceeded the limits provided for in its approved budget.

**Irregular expenditure**

11. As disclosed in note 30 to the financial statements, irregular expenditure amounting to R33,46 million was incurred as a result of contracts awarded to suppliers that contravened Municipal Supply Chain Management Regulations (MSCMR).

**REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

12. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

**Predetermined objectives**

13. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
14. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information* (FMPPI).
15. The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
16. The material findings are as follows:

## **Usefulness of information**

### **Presentation**

#### **Measures taken to improve performance not disclosed**

17. Section 46(1)(c) of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) requires disclosure in the annual performance report of measures taken to improve performance where planned targets were not achieved. Measures to improve performance for 73% of the planned targets not achieved were not reflected in the annual performance report. This was due to a lack of review of the reported performance information and the fact that an annual performance report disclosure checklist was not developed and implemented by management.

### **Consistency**

#### **Reported indicators and targets not consistent with planned indicators and targets**

18. Section 41(c) of the MSA requires that the integrated development plan (IDP) should form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. None of the reported indicators and targets (100%) were consistent with the approved service delivery budget implementation plan (SDBIP). This was due to a lack of development and implementation of proper performance planning and management practices to provide for the development of relevant performance indicators and targets and proper reviews of the IDP, SDBIP and annual performance report.

#### **Changes to indicators and targets not approved**

19. Section 25(2) of the MSA determines that an IDP adopted by a municipal council may be amended in terms of section 34 and remains in force until an IDP is adopted by the next elected council. Therefore, if the IDP is changed in-year, this process has to take place in accordance with the process as prescribed per section 34 of the MSA. All of the indicators and targets (100%) reported in the annual performance report were changed in-year without following the process as prescribed in section 34 of the MSA and without adoption by the council. This was due to the IDP manager not developing an MSA compliance checklist and the accounting officer not ensuring that changes made to the annual performance report were in compliance with the MSA.

### **Measurability**

#### **Performance targets not specific**

20. The FMPPI requires that performance targets must be specific in clearly identifying the nature and required level of performance. None of the targets (100%) were specific in clearly identifying the nature and the required level of performance. This was due to the lack of proper reviews of performance indicators by the IDP manager and internal audit to ensure that targets were specific in clearly identifying the nature and required level of performance.

## **Performance indicators not well defined**

21. The FMPPI requires that indicators must have clear, unambiguous data definitions so that data can be collected consistently and is easy to understand and use. A total of 73% of the reported indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to a lack of proper review of performance indicators by the IDP manager and internal audit to ensure that indicators were well defined.

## **Indicators not verifiable**

22. The FMPPI requires that it must be possible to validate the processes and systems that produce the indicator. A total of 73% of the indicators were not verifiable in that valid processes and systems that produced the information on actual performance did not exist. This was due to a lack of proper review of performance indicators by the IDP manager and internal audit to ensure that indicators were verifiable and supported by valid processes to produce the actual outcome.

## **Reliability of information**

### **Reported performance not reliable**

23. The FMPPI requires that the municipality must have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The information presented with respect to the provision of electrification to households was not reliable when compared to the source information and evidence provided. This was due to a lack of review of the recording of actual achievements against their supporting documentation by the IDP manager and internal audit.

## **Compliance with laws and regulations**

24. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

### **Annual financial statements and performance reports**

25. The financial statements submitted for auditing were not prepared, in all material respects, in accordance with the requirements of section 122 of the MFMA. Material misstatements of current assets, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.
26. The annual performance report for the year under review did not include measures taken to improve performance, as required by section 46(1)(c) of the MSA.

## **Audit committee**

27. The audit committee did not advise the council on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.

#### **Internal audit**

28. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the MFMA, DoRA and other applicable legislation, as required by section 165(2)(b)(vii) of the MFMA.

#### **Procurement and contract management**

29. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by MSCMR 13(c).
30. Goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by MSCMR 17(a) and (c).
31. Quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers and did not meet the listing requirements prescribed by the supply chain management policy, in contravention of MSCMR 16(b) and 17(b).
32. Bid adjudication was not always done by committees composed in accordance with MSCMR 29(2).

#### **Human resource management and compensation**

33. An acting municipal manager was appointed for a period of more than six months, in contravention of section 54A(2A)(a) of the MSA.

#### **Expenditure management**

34. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA.

#### **Waste management**

35. The municipality operated its waste disposal sites without a waste management licence or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act of South Africa, 1989 (Act No. 73 of 1989).

#### **Internal control**

36. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

#### **Leadership**

37. The accounting officer did not exercise effective oversight responsibility to ensure that the municipality complied with all laws and regulations as well as maintained an effective system of internal control over performance management. Actions were inadequate to

mitigate weaknesses to address irregular expenditure and performance reporting shortcomings.

### **Financial and performance management**

- 38. Systems and controls were not designed in a manner to prevent, detect and address risks that had an impact on accurate financial statements, performance and compliance reporting.
- 39. The accounting officer did not ensure that regular, accurate and complete performance reports were prepared and monitored regularly.

### **Governance**

- 40. The internal audit unit and audit committee did not adequately review the internal controls over the financial statements and performance management.

### **OTHER REPORTS**

#### **Investigation completed during the financial year**

- 41. An investigation was conducted by an independent consulting firm on request of the municipal public accounts committee. The investigation was initiated based on the leaking of confidential information to the media during the 2011-12 financial year. The result of the investigation revealed that no officials could be found liable.

Pietermaritzburg

30 November 2013



**AUDITOR - GENERAL**  
**SOUTH AFRICA**

*Auditing to build public confidence*